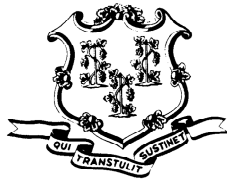


What's the Deal? VIII

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System Planning Returns

In our view, the theme that again dominates Connecticut and national debate with regard to electricity is planning. It is becoming clear that having (i) reliable power, (ii) at a reasonable price, that (iii) meets environmental goals, requires planning efforts. Now, I am not referring here solely or even primarily to government planning. Planning needs to be done by power plant developers, by utilities, by financiers, by non-governmental entities like environmental and conservation groups, and, yes, there is also a role for government.

Section 51 of the big Energy Bill from last session, Public Act 07-242, requires the electric distribution companies (CL&P and UI), in consultation with the Connecticut Energy Advisory Board, to develop a "comprehensive plan for the procurement of energy resources." This is not a mere aspirational plan that is being developed "for the drawer," but a renewed, robust effort to determine (a) what we are going to need in terms of electricity resources and (b) how we are going to get it. The plan is to talk about how "each of the proposed resources should be procured, including the optimal *contract* periods for various resources." The DPUC is tasked with holding a proceeding to approve or modify the plan. The first plan is due to be submitted by CL&P and UI to CEAB on or before January 1, 2008 –less than three months from now.

So, with due respect, it is possible that the present conference should not be called "What's the Deal? VIII" but rather, "What's the Plan? I." The "deal" is that we will be planning our electric system based on sound principles of science, engineering and economics.

Now, there is a place for many different types of entities in an environment where we again have robust electricity planning. There will continue to be a place for merchant (non-utility) generation plants to compete side-by-side with some new utility-owned plants. There is a place

for existing renewable energy facilities, and there certainly is a place for new renewable energy facilities. There's a place for those who supply products that conserve energy, and, of course, a place for business and residential customers who want to take measures to use less energy. There's a place for environmentally-concerned citizens who want us to generate fewer emissions in producing power. We're going to need large business and small businesses, entrepreneurs and consulting firms to help us plan for our needs. But the bottom line is, we need to plan for our electricity needs.

Why is electricity different? Why has Connecticut concluded that planning for electricity needs is necessary, whereas planning for dry cleaning establishments or pizza parlors is not? There are a variety of differences. The decisions about where electricity infrastructure is sited, what fuels are used, and what its costs are, at least in part, political choices—this is unavoidable. Electricity is a product which everyone needs on a 365 x 24 basis, yet it cannot be cheaply or easily stored. The emissions from power plants matter to the public, now more than ever, and how the emissions of power plants are regulated has changed and will continue to change rapidly. Electric power plants are very long-term investments, and short-term electricity market signals are probably not sufficient to finance all the power plants we need.

For these reasons and others, the nation is in a quandary now about electricity infrastructure, and particularly power plants. Do we build a new round of nuclear plants, despite the lack of a new waste disposal facility, and despite Chernobyl fears? Do we build coal plants, including "clean coal," despite the novelty of some of the technologies and future federal and state carbon regulation? Do we build natural gas plants, despite the volatile expense of this fuel? Do we build more renewable energy plants, even if they are not (yet) economically competitive in most situations? Everyone knows that these are the decisions that industry and government face, and it

shows that electricity is inevitably intertwined with policy and politics. No matter how it may be portrayed as an ordinary commodity, electricity is not widgets.

In theory, under electric restructuring, the risks of these choices were supposed to be on the developers, but that probably isn't going to work. The risks are just too large, in many circumstances, and as to electricity, you can't afford to wait and hope—you need to know now. So, what we are seeing, here and elsewhere, is that merchant generators are seeking long-term contracts, and states, including our state, are also considering plants owned by the traditional utilities again. These approaches shift some risks back to the ratepayers, but we at OCC say, fine—that's necessary, that's inevitable—these risks are often too large for one company to take on by itself, and let's face it -- we need the power. But, the corollary is, we the ratepayers must get to share the rewards as well. If the ratepayers are going to provide an assured backstop for plant financing, then the plant's recovery from the markets should be limited to prudent costs and a reasonable rate of return, perhaps with room for some incentives for exceptional performance. This approach is reflected in OCC's comments in a current proceeding before the DPUC to build new peaking plants and also reflects our approach in dealing with ISO-New England and the NEPOOL, where we focus on the reasonable cost to consumers of building a reliable New England electric system.

And finally, in the context of this new planning responsibility, under P.A. 07-242, we need to continue to reexamine existing programs that are labeled and promoted as being pro-consumer, but which in reality may add uncertainty and ultimately additional costs to an already over-burdened system. As many others have recognized, including Dominion's Virginia parent corporation, effective planning requires a stable customer base. In order to plan effectively, power plant developers and financiers need to

know that customer migration risks will be minimal. Planning for Connecticut's electric system needs is properly the responsibility of CL&P and UI, CEAB, and DPUC. All of Connecticut's residents will benefit from the planning that is done on their behalf to create an electric system that is clean, reliable and as inexpensive as possible. And all residents must pay an equitable share for such plans.

In Virginia, Ohio, Delaware, Montana, stakeholders are embracing planning mechanisms to make sure that the state will have reliable power and stable electric rates despite increasing fuel prices and new environmental regulations. These planning approaches can be a win for the business community and the residential community, with plans based on science, economics, engineering and common sense. I assure you that OCC will be there to make sure that the interests of business and residential customers are protected in the planning processes.

Thank you.